THE EXTEND OF INVESTOR RELATIONS INFORMATIONS IN THE MALAYSIAN COMPANIES WEB SITE

By;

FATHILATUL ZAKIMI ABDUL HAMID

MD SUHAIMI MD SALLEH

SAZALI SAAD

Faculty of Accountancy, Universiti Utara Malaysia

ABSTRACT

The introduction and growth of the internet in recent years has provides an interesting alternative for the dissemination and communication of accounting information. Furthermore, the rapidly growing demand for information from investor, corporation in USA and Europe are using internet for their investor communication. The main objective of this study is to extend the prior research in Investor relations by looking to the variation of investor information through Malaysian corporate web site to the factors thought to influence the disclosure. The study revealed that company size and industry classification was found significantly positive association with the existence of investor information in the corporate web site. While for profitability and foreign ownership variables, result show insignificant relationship. The result confirms that companies in Malaysia may not take the opportunity to actually communicate with stakeholders via. Internet, instead choosing to present traditional communication as required by law. Furthermore, Malaysian companies rely on traditional IR communications with institutional investors and funds managers—and this group of investors is usually already well informed about how these firms operate.

Keywords: investor relations, internet reporting, disclosure, corporate governance.

INTRODUCTION

Investors, regulators and accounting profession all over the world have been observed and debate the issue on corporate governance and transparency in companies' financial management. The 1997 Asian financial crisis was result loss in investor confidence but more important was lack of effective corporate governance and transparency in many Asia's firm. The 2001 and 2002, accounting scandals has shaken some of the world's biggest corporations make the situation become more crucial.

As a result from those two events it has created additional demands for information by investor that are timely and relevance, with the aim to protect their investment. Also, that information can provide full picture of corporate health. In order to accommodate the demands, the companies may need to revise it disclosure policy and relationship with investor. This relationship is knows as investor relations (hereafter knows as IR) where the companies will know what information that current and prospective investor wants rather than assuming that they are know. (Hamid et al., 2003).

Marston (1996) defined IR as the relationship between a company and the financial community, where the company will provide information to help the financial community and public investor in evaluating company. Ryder and Regester (1989) proposed that IR has strategic importance in creating a linkage between companies and investors. They have suggested that IR activities must focus on three principles. The first is to achieve and maintain the highest-possible share price. The second is to create investor confidence such that the cost of financing is decreased. The third is to protect the needs of major shareholders and to attract institutional and foreign shareholding investment.

Lev (1992) recommended that ongoing information to shareholders on the company's activities minimizes uncertainty among investors, thus minimizing negative impacts on share prices. IR can be therefore be seen as a key influence in restoring investors' confidence (Gruner, 2002), especially in an uncertain economic environment. Such uncertainty can be understood in terms of internal and external factors. Internal factors refer to perceptions of a company's performance being below public expectations (negative news or rumor). External factors refer to unpredictable economic conditions that are beyond the firm's control. These internal and external factors require companies to keep investors and the general public informed of their strategies to overcome such adverse situations. IR can thus be understood as the dissemination of accurate information with a view to stabilizing share prices and enhancing investors' confidence. Thompson (2002) noted that IR has an important role in minimizing investors' risk by providing clear and understandable information with the aim of full and fair disclosure. Consequently, IR is important in increasing shareholders' value.

Method of IR

IR communication can be formal or informal. Formal communication includes annual reports, interim reports, and shareholder meetings (annual and extraordinary) (Brennan and Kelly, 2000). According to Marston (1996) and Brennan and Kelly (2000), informal IR activities can be classified as private or public. Private activities include mailing information to analysts and fund managers, answering queries, providing feedback on analyst's reports, and private company meetings. Public disclosure activity mainly relates to printing and issuing information by way of press release.

The emergence of Internet technology has forced companies to provide new methods used for IR communication. The Internet allows companies to provide global IR communication without time limitation. An IR website can also reduce costs of printing and staffing. Shareholders can choose to receive financial data online, rather than through postal mail. IR managers can respond to requests from analysts and fund managers with up-to-date information. Taken together, these factors mean that IR information on the Internet provides benefits in cost-cutting, distribution, frequency, and speed. Furthermore it will provide equity between private and public IR activities. Finally, with this technology the company has extended the reach of its critical corporate communication that helps the company do a better job of explaining its financial results and news and strengthen it positions as a technology innovator in the eyes of investors.

Objective of the Study

The main objective of this study is to extend prior study in IR, where it will investigate the motivations factor for disclosure. This study has originates from the ongoing international efforts to explore and understand IR practices where most of the existing studies have generally focused on United States of America (USA) and European countries. Secondly, research in Malaysia may provide implications that IR may have different practice to different communities in different countries. Additionally, Malaysian Stock Exchange (KLSE) considered the largest in term of market capitalization in Asian where as at end of 2002 total market capitalization is stand at RM84 billion (Lee,2003) and the government was actively promote foreign investors to invest in Malaysian stock market. Further, this study will provide insight to regulator on the level of internet reporting used by Malaysian firms. Lastly, as citied by Marston and Starker (2001) there was little academic research in IR and this study also tries to fill the gap in literature relating IR practices across countries

This research (i) concerning what type of IR information disclose by Malaysian public listed companies and; (ii) to link the extend of IR reporting to four company specific variables drawings from agency theory postulate and tested using univariate and multivariate analysis. The study found that firm size and industry group are significantly associated with the level of disclosure. The results provide evidence to the policy makers and regulators in Malaysia for implementing guidelines and reporting investor information on the internet.

The reminder of this paper is organized as follows. Section 2, provides an overview of corporate governance practice in Malaysia. Section 3 discusses relevant prior literature on investor relations and internet reporting. In section 4, we specify hypothesis about motivation factors for investor relation at web site. In section 5, outlines the research design and study sample. Sections 6 discuss the result of the hypothesis test and section 7 provides the conclusion and limitation of the study.

THE CORPORATE GOVERNANCE PRACTICE IN MALAYSIA

One of the charges by critics against corporate in Malaysia and Asian during the 1997 financial crisis was that corporate governance standards were lacking and inadequate. In response to these charges, Malaysia government has established committees to guide the restructuring process namely the Finance Committee on Corporate Governance. The finance committee was headed by industry leaders and accountants among others. The committee spent one year studying established corporate governance codes like the Cadbury, King, and Hempel reports. The group's output was the Code on Corporate Governance (Malaysia Code), published in 1999. The Malaysian Code is an attempt to enhance corporate governance in listed corporations and to ensure that these corporations adhere to the recommended principles and practices. As corporate governance suggests credibility through transparency and accountability in running corporations, the principles and practices must continue to evolve to adapt to the Malaysian way and culture. The numerous recommendations of the Malaysian Code were implemented to enhance transparency and disclosure of relevant information among listed companies.

In June 2001, The KLSE has adopted most of the recommendations proposed by Malaysian Code that require all listed corporations to put into practice. All listed corporations' annual reports must include the Statement of Corporate Governance and a statement of the state of internal control in their annual report, plus disclosures of remuneration to the executive directors and details of directors seeking re-election at annual general meetings. In anticipation of the implementation of the Malaysian Code, the Malaysian Institute of Corporate Governance (MICG) was formed in March 1998. The objective for setting up this body was to represent, express and give effect to opinions of members of MICG on issues relating to corporate governance in Malaysia, promote awareness of corporate governance principles among corporate participants, the investing public and corporations on the importance of good governance to enhance shareholders value and bring about corporate prosperity. In addition, the Employees Provident Find established the Minority Shareholders Watchdog Group in 2001 as a voice for minority shareholders and to provide an avenue for minority shareholders to institute proceedings against listed issuers who flout the principles and practices of good corporate governance.

IR is an important part in corporate governance. The Malaysia Code (2000, p.10) describe ‘corporate governance’ as the process and structure used to direct and manage the business and affairs of the company with a view to enhancing business prosperity and corporate accountability, with the ultimate objective of realizing long-term shareholder value while taking account of the interest of other stakeholders. Furthermore, the Malaysia Code (pp. 96–7) states that a principal responsibility of a company board of directors is to develop and implement an IR-programmed shareholder communication policy. This principle has been adopted for companies listed on the KLSE starting from Jun 2001. However, no detailed authorised statement of IR information requirements has been issued. Despite this lack of detailed requirements, the increased awareness on the need for good corporate governance has stimulated interest in IR, and some companies have set up specific IR departments.

Literature Review

Theoretical Review

IR disclosure may relate to Agency Theory. Agency Theory introduced by Coase (1937) and later expanded by Jensen and Meckling (1976) viewed that the role of accounting information was to supervise managers’ behavior in order to reduce the agency cost. Watts and Zimmerman (1978) argued that companies would increase its voluntary disclosure in order to avoid pressure from the government and stakeholders that would lead to increment of future agency cost arising from regulations. Lev (1992) pointed out that without an active corporate disclosure the truth never prevails and he noted that

“Economic Theory has recognized that without active disclosure the truth never come out – a permanent information gap generally exists between insiders and outsiders”.

Other possible theory can also be relates in IR studies was proprietary theory and signaling theory as suggested by Marston (2001).

Investor relations studies

From the review on prior literature, it reveals that, IR study can be classified into two major area; (i) the practice, perceptions and important of IR communications and, (ii) the communication of IR information through internet.

Practice, Perceptions and Importance of IR communications

One of the earlier studies in the United Kingdom (UK) was conducted by Newman (1984) on the role and benefits of financial public relation. Marston (1996) has investigated the involvement in IR activities by the company management. The sample consisted of 61% of the top 500 UK listed companies. The result showed that the companies Directors were spent 37 days a year on IR activities, where the Chief Executive and Finance Director were actively involved. Clark and Murray (2000) explored the perceptions of the UK investment unit trust Chairman on the importance of IR information located in the chairman's statements, in the company annual reports, to their shareholders and public investor. The result showed that the chairman statement was importance to created good impression and confidence to the companies from the eye of shareholders and public investors.

Marston and Starker (2001) has expanded their earlier study by looking at the importance of IR functions and the establishment of IR department by the companies operating in the continental Europe[1] countries. Result from the survey suggested that (i) many companies had been establishing IR department ranging from two months to seven years and, (ii) company executives, fund managers and analysts had emphasized on the importance of IR department. Other IR studies in UK were by Barker (1998), Holland (1998a, 1998b). In the US, descriptive study on IR procedure is not in evidence (Marston, 2001). One of the reference studies in US noted by Marston (2001) and Ettredge, et al. (2002), was done by Lang and Lundholm (1993). Lang and Lundholm (1993) have conducted an empirical study on the ranking of firm disclosure practice by analysts, among others includes an IR variable. The evidence has suggested the importance of IR information in explaining the analyst disclosure

[1] Continental Europe countries used as a sample were from Belgium, France, Germany, Italy, Luxembourg, Spain, Switzerland and Netherlands.

ratings which can be related to the firm size and performance. From the above discussion, it demonstrates that the importance of IR functions and communications done by companies to the investors and stakeholders which includes analysts, with the aim to reduce the information gap.

Internet studies

The literature concerning the IR information via web site can be sub-group by the two themes (a) internet financial reporting and (ii) IR.

(a) Financial reporting

The financial reporting via internet is considered part of the IR subject and was specifically looks on the use internet for the financial reporting purposes. A large number of prior studies on internet reporting are descriptive in nature and was focusing on the financial result (Xiao, Jones and Lymer, 2002). One of the earlier studies in UK was conducted by Lymer (1997) to the top 50 UK listed companies. The result showed that 92 percent of the companies had Web site, however, only 24 percent of the Web sites had published full financial reports. Others international evidence includes Taylor (1998) and IASC (1999). Their studies investigate the nature and extend of financial reporting in corporate web site by 100 of world's largest international companies (Taylor, 1998) and additionally 30 largest listed companies from 22 countries (660 in totals) by IASC (1999).

Then again, a few studies have attempted to link the relationship between web reporting to company specific variables (e.g. Ashbaugh et al. 1999 and Marston, 2003). Ashbaugh et al. (1999) carried out study on internet financial reporting by 290 US non financial companies using the logistic regression found that only firm size was significant variable. While other variables for profitability, individual ownership and AIMR rating practice was insignificant. Recent study by Marston (2003) was to analyses the internet disclosure of 99 the top Japanese firms. Univariate results showed that firm size were major explanatory variable for existence of web site but not for extend of financial information. Other company variables that are profitability, listing status and industry grouping show insignificant relationship.

With reference to the Malaysian study, Noor and Mahammad (2000) investigate internet financial reporting by Malaysian companies. The sample consists of company that create link to the Kuala Lumpur Stock Exchange web site. The result shows that out of 218 companies that established the link only 11.5 per cent disclosed their full annual report. Only one prior publish study in Malaysia by Salleh et al (1999) investigate the extend of web reporting to company specific variables. They employ form firm specific variables (size, profit, industry group and auditor) and test using univariate analysis. Univariate result showed firm size and profitability were major explanatory variables for decision to disclose financial information in web site.

The overall conclusion that can be inferred from the prior studies in internet financial reporting is that majority of the studies investigated frequency and type of financial information located companies in the companies Web sites. With reference to the nature of information, the data posted in the Web sites, its must not be limited to the financial information only. As suggested by Thompson (2002) and Harper (2002) the current information disclosure demand by user must include the non financial information likes information on intangible assets. Example Intangible assets information is the information on management's credibility and integrity.

(b) Investor relations

Consistent with the topic of the study and the increasing use of the Internet for worldwide communication, the role of this medium has extended beyond financial reporting to become an instrument for investor-related communication (Gruner, 2002). As such, according to Deller et al. (1999), the Internet will reduce the information advantage previously enjoyed by institutional investors and information intermediaries. Deller et al. (1999) conducted a comparative study on the communication of IR information via. the Internet by 100 index-linked companies in each of the USA, UK, and Germany. The results showed that 91% of US firms had utilized the Internet as a communication medium for IR, as compared with 72% of UK companies, and 71% of German companies. The researchers also noted that the websites of US firms offered more features than the websites of the other two countries. These features included email addresses for IR, mailing lists, and frequently asked questions (FAQs) related to IR.

Single country study has been conducted by Hedlin (1999), Brennam and Kelly (2000), Ettredge et al. (2002) and Hamid et al (2003). Hedlin (1999) conducted a study of Swedish firms. These were divided into three categories: (i) the most active stock; (ii) small and medium companies; and (iii) new high-technology companies. However, Hedlin (1999) did not quantify the IR information disclosed, and the IR information was variously reported—for example, 83% of the firms had a financial report on the Web and 12% had a hyperlink for the interpretation of financial reports. Brennan and Kelly (2000) conducted a similar study of 99 Irish listed companies. This study revealed that only 67% of the sample had a website and that only 84% of these websites presented IR information. In related study, Hamid et al (2003) provide preliminary evidence on IR practice by Malaysian public listed companies. The sample for the study consisted of 100 stockmarket index-linked firms listed on the KLSE. The study revealed that only 70 firms provided investor-related materials on their websites. The highest-ranking investor-relations item was the background of the companies. The results confirm that a gap exists between developed countries and developing countries with respect to utilization of the Internet for investor-relations purposes.

Overall the scope of the prior studies in IR was descriptive in nature and concerned on the nature of IR information posted in the firm web sites. Recent published empirical work on association between IR disclosure in the web sites and firm characteristics was done by Ettredge et al. (2002). Ettredge et al. (2002) extended earlier work by Ashbaugh et al. (1999) on the dissemination of information for investors on American corporate websites to the factors thought influence disclosure practice draw from Lang and Lundbloom’s (1993) theory of voluntary financial disclosure plus an additional variables for disclosure quality. They analyzed 193 firms’ websites—which provided two types of information: (i) mandatory information required by US securities authorities; and (ii) voluntary information for investors. They find that: (i) disclosure of mandatory information in the firm web site is significantly associated only with size and a proxy variable for information asymmetry; and (ii) voluntary information is associated with variables proxying for size, information asymmetry, demand for external capital and firms' traditional disclosure reputation.

We extend the work by Hamid et al. (2003) in three ways. First we use explanatory variables drawn from Marston (2003) plus an additional variable for foreign ownership and more detail classifications in industries grouping variable. Second, we used a different disclosure list that has been identified during the interviewed with investor relation managers, rather than direct replication from prior study. Third, we attempted to explain related theoretical postulate for the factors that motivate company to disclose IR information.

HYPOTHESIS

Prior studies find that the quality in corporate disclosure is associated with the certain firm characteristics. To our best knowledge and discussion in literature review section, there is limited literature on the empirical research in IR, therefore we have to refer to prior literature related to internet financial reporting (Asbaugh et al. 1999, Salleh et al., 1999, Ettredge et al, 2002, Marston, 2003) and voluntary disclosure (Singhi and Desai, 1971 Firth, 1979; Ball and Foster, 1982). As discuss earlier in the theoretical review sections, the decision to disclose IR information may relates to Agency Theory postulates. Agency theory predicts that a greater extend of disclosure is expected by the adoption of more governance mechanisms will reduce information asymmetry (Watts and Zimmerman) between principals and agents. Further, according to this postulate, the level of information asymmetry is an important driver for investor uncertainty.

Accordingly, the hypothesis below is about the effect of four firm specific characteristics towards the decision to disclose IR information draw from agency theory postulate.

Firm Size

Larger firms will disclose more information than smaller firms due to the need to raise capital at lower cost. Additionally, larger companies have higher information asymmetry between agent and principle and, therefore, higher agency cost may arise from such asymmetry. To reduce these agency cost, larger firm disclose more information than smaller companies (Firth, 1979). Ball and Foster (1982) and Firth (1979) proposed that larger firm have adequate resources in adopting certain accounting policy. In addition, larger firm having greater incentive for Web based dissemination by the reason small cost involve compare with the benefits they that will be get.

Salleh et al. (1999) study found there is positive relationship for firm size, where larger Malaysian firm are likely to have financial information in web site compare with small firm by the reason of the cost involve in setting and maintain the web site. Ashbaugh et al. (1999), studies on internet financial reporting by the US companies, find that firm size is the sole significant variables in web based accounting voluntary disclosure. Furthermore, firm responding to their survey indicated that communicating with potential and existing shareholders was an important reason for establishing the internet presence. Other international evidence includes Ettredge et al (2002) and Marston (2003) also found similar findings. We expect the incentive to be the same for IR web site case. Our hypothesis is,

H1: There is positive relationship between the firm size and the amount of IR information at the firm web site.

Profitability

Singhi and Desai (1971) suggests that if the firm profit margin is higher than average then management are likely to disclosed more information in order to assure to the stockholder about their strong financial position. Previous study in financial reporting has examined association between profitability and internet reporting.